

7/22/90

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 89-610-W/S - ORDER NO. 90-694  
AUGUST 1, 1990

IN RE:	Application of Carolina Water	)	
	Service, Inc., for approval	)	ORDER
	of new schedules of rates and	)	APPROVING
	charges for water and sewer	)	RATES AND
	service provided to its	)	CHARGES
	customers in its service area	)	
	in South Carolina.	)	

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed February 2, 1990, by Carolina Water Service, Inc. (the Company or CWS) whereby the Company seeks approval of a new schedule of rates and charges for water and sewer service provided to its customers in its service area in South Carolina, excluding Hollywood Hills, Green Springs, Meadowlake, Meadowlake Hills, Wrenwood, Hillcrest Estates and Sharpe's Road Mobile Home Park. The Application was filed pursuant to S.C. Code Ann., §58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated March 1, 1990, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing and Hearing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The

Notice of Filing and Hearing indicated the nature of the Company's application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate) and Mr. Thomas A. Tatum, a resident of the Springhill subdivision.

According to CWS' Application, the proposed rates and charges would increase water revenue by approximately \$133,036, or 12%, and sewer revenue by approximately \$776,524, or 37%. Including the miscellaneous proposed revenue, the requested increase in water revenues is \$133,714 and sewer revenue is \$780,484. The Company's presently authorized rates and charges were approved by Order No. 89-573 issued on June 5, 1989, in Docket No. 88-241-W/S. Order No. 89-573 denied the Company's requested rate increase except for a sewage collection service charge. The Company's last general rate increase was approved by Order No. 86-1200, on December 1, 1986, in Docket No. 86-220-W/S.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and

gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted its discovery in the rate filing of CWS.

A public hearing relative to the matters asserted in the Company's application was commenced on June 13, 1990 at 10:30 a.m. in the Commission's Hearing Room. Pursuant to Section 58-3-95, S.C. Code of Laws (Cum. Supp. 1989), a panel of three Commission members composed of Commissioner Yonce, presiding, and Commissioners Bowers and Fuller, was designated to hear and rule on this matter. Rex L. Carter, Esquire and Mitchell M. Willoughby, Esquire, represented the Company; Carl F. McIntosh, Esquire, and Elliott F. Elam, Jr., Esquire, represented the Consumer Advocate; and Marsha A. Ward, General Counsel, represented the Commission Staff.

The Company presented the testimonies of Kenneth M. Deaver, Regional Director of Operations for South Carolina and Georgia for Utilities, Inc., the parent company of CWS; Carl J. Wenz, Director of Regulatory Accounting for Utilities, Inc. and CWS; Patrick J. O'Brien, Vice President of Finance of CWS and an officer of the parent company, Utilities, Inc.; Carl Daniel, Vice President and Regional Director of operations of CWS of North Carolina; and Dr. Edward W. Erickson, Professor of Business and Economics at North Carolina State University and Director of the NCSU Center for Economic and Business Studies. The Consumer Advocate presented Philip E. Miller, Riverbend Consulting, to testify to the Consumer Advocate's recommendations. The Commission Staff presented Thomas

L. Ellison, Public Utilities Accountant, and Charles A. Creech, Chief of the Commission's Water and Wastewater Department, to report Staff's findings and recommendations.

Public witnesses included Mary Zeruth of Glenn Village, Dan Peterson of Lake Wylie Woods Home Owners Association, Pat O'Neal and Andy Clark of Spence's Point, B.E. Morton, Jr., of Hunter's Glenn, Robert S. Kennedy of River Hills, John Allen of Lake Wylie Plaza Merchants Association, Haidee Clark, Roy Caldwell and Lou Gill of Harborside Condominiums, Michael Watford, Christopher Steele, and Cliff Barrineau of Brighton Forest, and Charles Reese and John Warren of Golden Pond.

## II.

### FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. That CWS is a water and sewer utility providing water and sewer service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending June 30, 1989.

3. That by its Application, the Company is seeking an increase in its rates and charges for water and sewer service of

\$914,198 which Staff has calculated to be \$967,706.

4. That the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$3,300,074 which reflects a \$306,767 reduction in per book revenues.

5. That the appropriate operating revenues under the approved rates are \$4,146,050 which reflects a net authorized increase in operating revenues of \$845,976.

6. That the appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are \$3,035,351, which reflects a decrease in per book expenses of \$90,982.

7. That the appropriate operating expenses under the approved rates are \$3,291,525.

8. That the Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

9. That the Company's appropriate level of net operating income for return after accounting and pro forma adjustments is \$271,641.

10. That the appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$870,974.

11. That a year end, original cost, rate base of \$8,291,651 consisting of the components set forth in Table B of this Order, should be adopted.

12. That the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

13. That a fair operating margin that the Company should have the opportunity to earn is 10.42% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

14. That the rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

15. That the rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

### III.

#### EVIDENCE AND CONCLUSIONS

##### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

##### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is

contained in the Application of the Company and the testimony and exhibits of Company witness Wenz.

On February 2, 1990, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$914,198 which Staff calculated using the appropriate billing units to be \$967,706. The Company's filing was based on a test period consisting of the 12 months ending June 30, 1989. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984).

Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or

annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending June 30, 1989, to be the reasonable period for which to make our ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Wenz and Commission Staff witness Creech. (See, Hearing Exhibit Nos. 3, and 10)

The Staff made one adjustment to operating revenue based upon the use of actual billing units and consumption by the Staff, the elimination of Sharpe's Road Mobile Home Park by Staff, and the reconciliation of incorrect miscellaneous revenue figures by the Staff. The Consumer Advocate did not propose any adjustments directly affecting operating revenues. The Staff proposed to reduce book revenues due to the annualization of present rates by \$37,784. This adjustment is appropriate for ratemaking purposes as it reflects the proper level of revenues for the Company. The revenue adjustment concomitantly reduces General expense by \$255 and Operating Taxes by \$13,998.

Additionally, Staff reduced revenues by \$268,983 to reflect the removal of the revenues applicable to Hollywood Hills, Green Springs, Hillcrest, Wrenwood and Sharpe's Road subdivisions from this proceeding. The Company did not include Sharpe's Road in its adjustment. Staff also corrected an error found in the



calculation of allocations based on sewer customer percentages. The Commission finds that Staff's adjustment is more accurate and is hereby adopted for ratemaking purposes.

Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments, are \$3,300,074 which reflects a \$306,767 decrease in revenues.

Using the Commission's Finding of Fact No. 13 and the Evidence and Conclusions, infra., approving a 10.42% operating margin, the Company's operating revenues after the approved increase are \$4,146,050.

#### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6, 7, AND 8.

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witness Wenz for the Company, witness Miller for the Consumer Advocate, and witnesses Ellison and Creech for the Commission Staff. This Order will address and detail only those accounting and pro forma adjustments affecting expenses which differed between the Company, the Consumer Advocate and the Commission Staff.

#### WATER SERVICE CORPORATION

The Staff, the Company and the Consumer Advocate proposed to adjust expenses for the allocation of Water Service Corporation expense to CWS and remove those charges applicable to Hollywood Hills, Green Springs, Wrenwood, Hillcrest, and Sharpe's Road subdivisions. Water Service Corporation is an affiliate of

Utilities, Inc., the parent company to both CWS and Water Service Corporation. Water Service Corporation is a sister company to CWS, providing engineering, accounting, legal, financial, computer, and other types of services to CWS and other affiliated utility companies. These services are provided on the basis of a service agreement that has been in effect for a number of years. Some expenses of Water Service Corporation are charged directly to the affiliated utility companies on the basis of actual cost or some other factor causing a direct charge, while other expenses are classified as indirect charges and are allocated to the operating companies via various allocation procedures. The Company adjusted the per book expenses of Water Service Corporation and then transferred a portion of those amounts to the appropriate accounts for CWS. Likewise, the Staff made pro forma adjustments to per book amounts and transferred a portion of the expenses from Water Service Corporation to CWS. The bases for Staff's adjustments are provided in the Staff Report, Hearing Exhibit No. 10, Accounting Exhibits WSC-A, WSC-A1 and WSC-A2. Staff reduced Operating and Maintenance expenses by \$4,872, reduced General expenses by \$338 and increased Operating Taxes by \$2,337 in its adjustment. Additionally, Staff allocated a portion of Water Service Corporation to the excluded subdivisions by reducing O&M expenses by \$10,130, reducing General expenses by \$14,593 and increasing Operating Taxes by \$8,803.

The Consumer Advocate accepted Staff's adjustments to the books of WSC amounting to \$(9,694) but recommended allocating such

adjustments to South Carolina using an allocation factor of 14.72%. Witness Miller based his allocations upon a Company response to a Consumer Advocate Interrogatory to reduce operating expenses by \$16,610. The Staff, on the other hand, used accepted allocation methods and provided the percentages used and adjustments in Hearing Exhibit No. 10, Accounting Exhibit WSC - A, A1, and A2.

In making its adjustments, the Commission Staff reviewed the allocation procedures of the Company which were consistent with previous allocations from prior rate cases of affiliated companies. The Commission finds that Staff's adjustments are consistent with the approved allocation procedures and appropriately reflect the proper level of expenses associated with the services provided by Water Service Corporation to CWS. The Commission Staff's adjustments are hereby adopted.

#### EXCLUDED SUBDIVISIONS

Staff and the Company proposed to remove the expenses applicable to Hollywood Hills, Green Springs, Hillcrest, and Wrenwood subdivisions from this proceeding. The Staff's adjustment also includes removal of Sharpe's Road customers. This is associated with the earlier adjustment affecting revenues. The Commission, using its previous rationale for approving Staff's adjustment to revenues, approves Staff's adjustments to expenses in the following amounts: reduce O&M expenses by \$153,348, reduce General expenses by \$40,200, reduce Depreciation by \$10,023, reduce Operating Taxes by \$17,485, and increase Interest During Construction by \$1,348.

#### ANNUALIZATION OF DEPRECIATION

The Staff, the Company, and the Consumer Advocate proposed to annualize depreciation expense based on year-end plant levels and depreciation rates. The Consumer Advocate proposed to increase depreciation expense by \$57,713. The Commission Staff proposed to increase depreciation expense by \$42,802. Staff's adjustment uses straight line depreciation at 2% on depreciable plant in service, a straight line 20% depreciation rate on transportation equipment, eliminates a vehicle traded in by the Company and includes a replacement vehicle at original cost, does not include depreciation on Construction Work in Progress (CWIP) completed after the end of the test year and uses a 12.5% depreciation rate on computer equipment. The Company's adjustment reflects a 21-25% depreciation rate on transportation equipment, includes depreciation on a traded in vehicle, and includes depreciation for CWIP completed after the end of the test year.

As to the inclusion of depreciation for various construction projects completed after June 30, 1989, the Staff opposed this proposal by the Company, as did the Consumer Advocate. While the Commission has generally allowed adjustments for certain items occurring outside the test year as long as the items are known and measurable, depreciation on construction work in progress completed after the test year is not one of them. The Company has met the known and measurable test for this additional expense, however, the Commission's policy is to use as the cut-off date the end of the test year for CWIP. (See, Order No. 89-588, Docket No. 88-681-E)

If the project is complete by the end of the test period, depreciation is allowed for the entire test year and the rate base is adjusted for plant in service. If the project is not complete, no depreciation is allowed, but CWIP is included in the Company's rate base with no offsetting adjustment to operating income. The Commission will not allow further accrual of interest during construction for the included CWIP expenditures. The Commission's treatment of CWIP achieves a proper sharing between the ratepayers and shareholders of the Company. By this methodology, the ultimate cost of the projects will be held to a minimum since the accrual of interest during construction will no longer be appropriate.

The Commission finds that the Staff's adjustment to increase Depreciation expense by \$42,802 with a corresponding reduction to Operating Taxes of \$15,965 properly reflects the depreciation expense based on year-end plant levels, appropriate depreciation rates and appropriate ratemaking principles. Staff's adjustment is adopted for ratemaking purposes herein.

#### NONALLOWABLE PLANT ITEMS

The Staff proposed to lower depreciation for nonallowable plant items contained on the books of Water Service Corporation and allocated to the Company. This included such items as a swimming pool, exercise room, and exercise equipment. This adjustment is consistent with the Commission's treatment of such nonallowable plant, therefore, Staff's adjustment to reduce Depreciation expense associated with that plant by \$514 and increase Operating Taxes by \$192 is adopted.

#### NONALLOWABLE VEHICLES

Staff proposed to remove the depreciation associated with vehicles not associated with regulated utility matters. Three vehicles were on the Company's books that, according to Staff, should not be included for ratemaking purposes. One was a Lincoln Continental used by Mr. Perry Owens, President of the parent company and two vehicles were used by a non-regulated subsidiary, Land and Lab. The Commission finds that the depreciation expense for vehicles not used for regulatory purposes should not be included for ratemaking purposes. Therefore, the Commission hereby adopts Staff's adjustment and will reduce Depreciation expense by \$8,181 and increase Operating Taxes by \$3,052.

Staff also adjusted O&M expenses and Depreciation expense in its allocation of vehicles relating to CWS based on customer equivalents served. The Staff based its transportation expense on 22 vehicles (see adjustment above eliminating three vehicles). Staff proposed to decrease O&M by \$487 and decrease depreciation by \$3,110. The Commission is of the opinion that Staff's adjustment fairly allocates the proper portion of transportation expense to CWS and adopts Staff's adjustment.

#### COMPUTER ALLOCATIONS

Staff proposed to true-up depreciation annualization for computer allocations from CWS' North Carolina jurisdiction to Black Horse Run and Commodore subdivisions. Staff assigned a portion of CWS computers to Southland and South Carolina Utilities. No other party proposed such an adjustment. The Commission finds that

Staff's adjustment properly allocates the computer expenses among the CWS systems in South Carolina, as well as among the sister utilities. Depreciation will be increased by \$618 and Operating Taxes will be reduced by \$231.

DEPRECIATION AND INTEREST CHARGED AS RENT AND COMPUTER OPERATIONS

The Staff and the Company proposed to eliminate depreciation and interest charged as rent and computer operations to CWS for the home office in Northbrook, Illinois. These amounts are reflected in the Company's operating expenses. In previous Commission decisions (See, Docket No. 88-241-W/S, Order No. 89-573), the Commission has determined that the depreciation and interest charged as rent and computer operations should be charged "below the line" and that the depreciation expense, gross plant and accumulated depreciation associated with the home office should be directly assigned or allocated to CWS for ratemaking purposes. Staff's adjustment decreases General expenses by \$60,021 and reflects the elimination of depreciation and interest charged as rent on the Company's share of home office facilities and is consistent with previous Commission practices. The Company proposed a similar adjustment but it varied from Staff's by a few dollars. The Commission finds Staff's adjustment to be appropriate for ratemaking purposes herein.

The Consumer Advocate contends that the expenses associated with the computer operations have not been shown to be "reasonable and necessary." The Company provided information upon cross-examination by the Consumer Advocate that the computer system

employed by CWS aids in the Company's billing, as well as provides ready access to customer records and can be used by personnel at both the home office in Northbrook, Illinois and CWS in South Carolina. The Commission finds this justifies the expenses associated with the computer operations. The Commission will, however, require the Company to file more information justifying the level of expenses associated with its computer operations in its next rate filing.

#### HURRICANE HUGO LOSSES

The Company, the Consumer Advocate, and the Staff proposed various adjustments to the Company's O&M expenses for various accounts related to Hurricane Hugo losses. All three parties agreed that such costs associated with Hurricane Hugo should be amortized over a five-year period.

The Company, in its direct and rebuttal testimony, estimated total Hugo losses of \$173,000 with an annual amortization over five years of \$34,600. The Commission Staff proposed to amortize \$121,206 over five years and to capitalize \$16,465, while the Consumer Advocate proposed that \$76,970 be amortized over five years. The Company's proposal includes capitalized time, costs attributable to Wild Dunes Utility (See, Order No. 90-650, Docket No. 89-601-W/S) and excluded subdivisions, and other costs attributable to other states and other utilities.

The Commission Staff, in reviewing the Company's proposal, excluded capitalized time because the Company did not provide any verifiable information, allocated a portion of the costs to the



excluded subdivision of Hollywood Hills, Green Springs and Wrenwood, and another Hugo-damaged utility, Wild Dunes. Staff reclassified some expenses as capital expenditures such as generators and included depreciation expense.

The Consumer Advocate recommended limiting the total costs to be amortized to the additional out of pocket costs incurred as a result of Hugo. The amortization of \$76,970 over five years results in an adjustment of \$15,394.

The Company urges the Commission to allow it to fully amortize its Hugo related expenses which would include an annual amortization of approximately \$10,359 eliminated by the Staff prior to depreciation expense on capitalized items. The Commission and all of the parties to this proceeding are fully aware of the devastation caused by Hurricane Hugo. The Company was forced to marshall resources from many jurisdictions in order to combat outages and restore service at the earliest possible time. The Company's efforts were gallant as explained by Witness Deaver in his testimony. To the Company's credit it literally gave residents of the Sumter community free water during a period of time when water supplies to most areas were completely cut off. Due to the timely and vigorous effort of the Company, restoration of water and sewer services was completed in record time to most areas. The expenses associated with this restoration effort were unexpected and unplanned, but totally required under the circumstances. The Company believes that the expenses incurred are fair, reasonable and in accord with the damage that had to be remedied. However,

the Company should be permitted to recover for ratemaking purposes, only those costs incurred by it -- not by one of its sister utilities. Staff's adjustment fairly reflects the proper expenses incurred by the Company in restoring service due to Hurricane Hugo.

#### RATE CASE EXPENSES

The Company, the Staff and the Consumer Advocate proposed various adjustments to the expenses associated with this rate case and an amortization over a three year period. In its filing, the Company proposed to amortize estimated expenses of \$207,293 over a three-year period. The Commission Staff, at the time of its audit, proposed only the actual expenses billed at that time be amortized over a three-year period. Staff's adjustment amounted to \$18,846. The Consumer Advocate took exception with the amount of the Company's filing and with the inclusion of the prior rate case expenses. At the hearing, the Company updated its estimate to reflect the actual cost of this proceeding. The Company submitted supporting documentation at the hearing. The actual verifiable cost submitted by the Company for inclusion in this rate case was \$139,081, which after reduction for the excluded subdivisions of \$10,481, would result in an annual amortization over three years of \$42,867, including one-third of the Company's last rate case expenses which the Commission finds appropriate to include. There was no finding of bad faith or imprudence on the Company's part in filing the last rate proceeding. That issue has never been raised. Even though the Company was unsuccessful in being granted an overall rate increase, it did get a new rate approved. The

previous rate case expenses are appropriately included as are the verifiable updated expenses. The adjustment to General expenses is \$23,243.

#### SALARIES AND WAGES

The Staff and the Company proposed to adjust salaries and wages. The adjustments are based on current wage rates, employee levels and the allocation of the State Supervisor for Carolina Water Service to areas served by him. The Consumer Advocate recommended that the Commission should reject the Company's proposed salaries and wages adjustment. It was witness Miller's opinion that the Company's salary levels were exorbitant for a company the size of CWS. Additionally, the Consumer Advocate could not verify whether the Company's proposed labor adjustments meet the known and measurable ratemaking standards. The Consumer Advocate also was concerned that none of the office salaries had been capitalized by the Company and that the operators' salaries and wages will increase 16% and administrative salaries and wages by 11%, which is in excess of the current inflation rate. Witness Miller also recommended that the Commission order the Company to justify its salary levels in the next proceeding.

Staff's adjustments of \$1,479 to O&M expenses and \$7,578 to General expenses differ from the Company's adjustment of \$77,837 and \$12,392, respectively, primarily due to the rejection by Staff of three Company employees not employed by the Company during the test year. The Company also annualized part-time salaries and had not booked the state supervisor's salary increase. The Commission

hereby accepts Staff's adjustment to salaries and wages but agrees with the Company as to treatment of the three additional employees. The Company maintains that as to the additional employees, these expenses are known and measurable and, as testified to by Witness Deaver for the Company and Witness Wenz, these employees fill full time positions. Their services are vital to the Company and its customers and are essential for the safe and reliable operations of the Company's plants. Moreover, their hiring was largely directed by the Department of Health and Environmental Control to meet more rigorous operating standards and by the Commission to meet increased service demands. Notwithstanding the Commission Staff's exclusion of these expenses, the Commission concludes that these payroll adjustments are fair, reasonable and appropriate as these costs are now known and measurable and in large part mandated by the Company's environmental and regulatory overseers and necessary to serve test year customers. Therefore, pro forma adjustments should be made to the test year expenses to include the increased payroll cost of additional, needed operators.

In reviewing the Company's proposal to include \$69,820 in additional expenses (salaries and wages, health insurance, pensions and benefits and payroll taxes) related to the three employees, several adjustments should be made to be consistent with other adjustments approved herein. First, a portion of the proposed expenses relating to salaries and wages should be allocated to the excluded subdivisions, consistent with other adjustments herein. Second, a portion of the employees' salaries should be capitalized

and rate base increased in the amount of \$3,252. Third, depreciation expense should be adjusted by \$85 and rate base accordingly reduced. The total adjustment to salaries and wages, and related pensions, benefits, depreciation and taxes amounts to \$61,861. The Commission, having previously concluded that it is appropriate to include the three additional employees expenses, finds that the adjustments discussed herein are consistent with ratemaking policies and are herein approved. The Commission will, as requested by the Consumer Advocate, require the Company to make an additional filing with its next rate application to include justification of its salary levels.

#### PAYROLL TAXES

Both the Company and the Staff, as well as the Consumer Advocate, proposed to adjust payroll taxes for the end of period salaries and wages adjustment. The Consumer Advocate, based on its opposition to the Company's salaries and wages adjustment, proposed that the payroll tax adjustment be rejected for the same reasons. The Commission Staff made an adjustment to the Company's payroll taxes which reflected the actual tax rates and limits. Staff's adjustment is net of the Company's income tax effect. The Commission, based on its recognition of the appropriateness of a salaries and wages adjustment, finds that an adjustment to payroll taxes is also appropriate. Because the Commission Staff's adjustment reflects the actual tax rates and limits, the Commission finds that an increase to Operating Taxes of \$3,388 should be adopted for ratemaking purposes herein.

#### PENSIONS AND BENEFITS

The Staff and the Company proposed to adjust pensions and benefits resulting from the end of period payroll annualization. The Consumer Advocate, based on its opposition to the salary and wage adjustment and its assertion that the Company's proposal fails to meet the known and measurable test, contends that the Company's proposed adjustment for pensions and benefits should likewise be rejected. Since the Commission has allowed an adjustment for salaries and wages, it is appropriate for the Commission to likewise adjust pensions and benefits resulting from the end-of-period payroll annualization. Staff's calculation of \$14,898 added to general expenses reflects a difference in the per book amounts and the recalculation of health, life, and disability insurance. The Commission finds that the Commission Staff's adjustments to pensions and benefits are appropriate and are adopted for ratemaking purposes herein.

#### HEALTH INSURANCE

The Staff adjusted health insurance costs based on the number of employees and current insurance rates. The Staff verified the cost as being \$2,690 per employee. The Company used an average of \$2,700 per employee and did not allocate any expense to the excluded subdivisions or other utilities served by such employees, as did the Staff. The Commission finds that Staff's adjustment of \$10,691 accurately reflects the level of insurance as well as the appropriate allocations. Staff's adjustment is approved for ratemaking purposes.

#### CAPITALIZATION OF PAYROLL EXPENSES

The Commission Staff proposed to capitalize a portion of the payroll and related adjustments involving operator's salary increases. The Commission Staff proposed adjustments to O&M expenses, General expenses, and Depreciation to reflect that a portion of the operators' time would be spent related to projects that would be devoted to permanent improvements. The Commission Staff based its adjustment on the amount of time an operator would spend in making capital improvements to the system. Therefore, the Commission will adopt the Staff's adjustment which will capitalize a portion of the salary and wage adjustment. This will reduce O&M expenses by \$74, General expenses by \$1,079 and increase Depreciation expense by \$36, and Operating Taxes by \$277, including the State and Federal tax effect.

#### GROSS RECEIPTS TAXES

The Staff proposes to true-up gross receipts taxes using the current tax rate and present revenues. The Commission finds that the Staff's adjustment which reflects the current and appropriate tax rate is proper and is hereby adopted for ratemaking purposes. Therefore, Operating Taxes will be adjusted by \$2,774 to true-up gross receipt taxes.

#### PROPERTY AND REAL ESTATE TAXES

Staff proposed to adjust property and real estate taxes to reflect a level based on current tax bills. The Company's adjustment included taxes previously allocated to the excluded subdivisions. The Consumer Advocate contends the adjustment does

not meet the known and measurable test. The Commission Staff's adjustment reflects the current tax bills, therefore it is a known and measurable adjustment. The Commission finds that Staff's adjustment reducing operating taxes by \$2,323 is appropriate for ratemaking purposes and is approved herein.

Additionally, the Staff and the Company proposed to include the effect of changes in property taxes due to assessments by the South Carolina Tax Commission. Staff verified the Company's calculations with the Tax Commission and arrived at an adjustment of \$115,870 (net of income taxes). The Company proposed its adjustment of \$113,707 (net of taxes) in the prefiled testimony of Witness Wenz.

In his supplemental testimony, Witness Wenz addressed the property tax increase experienced by the Company in the amount of \$181,351 dollars on an annual basis. This additional property tax results from a change in the method of assessing property tax by the State's taxing authority beginning on January 1, 1990. Witness Wenz pointed out that because the tax had not been previously assessed, the Company did not have an expense item in its financial schedules to recover this cost. Thus, even if a pro forma adjustment is allowed for the property tax, there will be approximately seven (7) months of unrecovered taxes. The Company proposed that this unrecovered portion of the tax for 1990 be amortized over a ten (10) year period in accordance with the calculation set forth below:



1. Tax for 7 months (January through July 1990)  
 $\$181,351 \times 7/12 = \$105,788$
2. Amortize \$105,788 over ten (10) years at a  
rate of \$10,579 per year.

Witness Wenz indicated that deferred treatment of this expense was essential or the Company would be unable to recover this cost at all. Moreover, if the Commission failed to amortize this expense, as requested, such a decision would adversely impact the Company's financial well being and harm its ability to secure needed additional capital.

The property tax itself is clearly known and measurable at this time. In regard to the unrecovered portion of the tax, that is, that portion accruing from January through July 1990, the Commission concludes that it is fair and reasonable for such expense to be deferred and recovered over a ten (10) year period. This treatment is fair to the Company in that recovery can be made over time, and fair to the customer in that the effect of the expense is attenuated by the ten (10) year recovery period.

In summary, the Commission concludes that the change in property taxes of \$115,870, as verified by Staff, as well as the unrecovered tax expense for January through July, 1990, of \$105,788 should be allowed for ratemaking purposes. The unrecovered tax expense will be recovered at the rate of \$10,579 per year for the next ten (10) years. Such an adjustment is fair and reasonable to the Company and its customers.

#### PER BOOK TAXES

The Staff and the Company proposed to adjust per book taxes to reflect current tax rates as applied to taxable income. The Staff used a 34% federal tax rate and a 5% state income tax rate and did not recognize negative taxes. The Company used a 34% federal tax rate and a 5.5% state income tax rate. Because the Staff used the appropriate state income tax rate, the Commission Staff's adjustment to reduce operating taxes by \$60,987 is hereby adopted for this ratemaking proceeding.

#### INTEREST SYNCHRONIZATION

The Staff, the Consumer Advocate and the Company propose to record to effects of interest synchronization of income taxes. The adjustments differed because of differences in other proposed adjustments by these parties. Both the Company and the Staff used the accepted formula for the interest synchronization adjustment. For ratemaking purposes, the Commission will adopt the adjustment of the Commission Staff and will increase Operating Taxes by \$10,284.

#### INTEREST ON CUSTOMER DEPOSITS

Staff and the Company proposed to annualize interest on customer deposits. The Staff used a 12% rate and calculated an adjustment in the amount of \$33,664. The Commission finds Staff's adjustment to be consistent with the Commission's prior practices and approves same.

#### CUSTOMER GROWTH

The Company and the Staff proposed to record the effects of customer growth. The Company and the Staff used a growth factor based on the formula as previously approved by this Commission to calculate customer growth. Based on Staff's formula, the Commission finds the appropriate amount of customer growth to be \$16,449.

#### MISCELLANEOUS

Staff proposed to eliminate non-allowable expenses found during Staff's audit of the Company books and records. Such items included flowers, gifts, charitable contributions, dues, YMCA memberships, etc. Staff's adjustment decreased General expenses by \$3,849. Staff allowed the Company's grocery items for ratemaking purposes such as paper towels, soap, coffee. The grocery items, particularly the coffee costs, were questioned by the Consumer Advocate, as well as some of the public witnesses. The Commission finds, however, that these items are not unusual or extravagant and can be considered a necessary part of a decent working environment. Surely paper towels and soap help the office and the employees maintain sanitary conditions. These expenses, in the Commission's opinion are properly included in allowable expenses. Staff's adjustment includes the appropriate expenses and is hereby adopted for ratemaking purposes.

The Staff and the Company proposed to remove a loss on the sale of vehicles and to remove a penalty assessed by DHEC for a violation at the Company's Friarsgate plant. The Staff and Company

differed in their adjustment because Staff allocated a portion of the expenses to the excluded subdivisions. The Commission finds that Staff's adjustment is consistent with the Commission's treatment of the excluded subdivisions and is appropriate for ratemaking purposes. The Commission will reduce General expenses by \$15,881 and increase Operating Taxes by \$5,923.

The Commission will hereby adjust general taxes, and state and federal income taxes to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been reviewed by the Commission and found to be unreasonable or inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 AND 10.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, (see, Evidence and Conclusions for Finding of Fact No. 13) net income for return is found by the Commission as illustrated in the following Table:

TABLE A  
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$3,300,074
Operating Expenses	3,035,351
Net Operating Income	<u>264,723</u>
Interest During Construction	-0-
Customer Growth	6,918
Net Income for Return	<u>\$ 271,641</u>

AFTER RATE INCREASE

Operating Revenues	\$4,146,050
Operating Expenses	3,291,525
Net Operating Income	<u>854,525</u>
Interest During Construction	-0-
Customer Growth	16,449
Net Income for Return	<u>\$ 870,974</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence supporting these findings concerning proper methodology and level of cash working capital and proper items to be included in the Company's rate base can be found in the exhibits and testimony of Company witness Wenz, Consumer Advocate witness Miller and Commission Staff witness Ellison. The rate base, as allocated to the Company's operations, is composed of the value of the Company's property used and useful in providing water and sewer service to the public, plus construction work in progress, materials and supplies, and an allowance for cash working capital and property held for future use; less accumulated depreciation, accumulated deferred income tax (liberalized depreciation), contributions in aid of construction, advances in aid of

construction, plant acquisition adjustments, cost in excess of book value and customer deposits. The Accounting Department of the Administration Division of the Commission Staff, prior to the date of the hearing, conducted an audit and examination of the Company's books and records, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items.

The Commission's determinations relative to the Company's rate base for its water and sewer operations appear in the paragraphs below.

#### GROSS PLANT IN SERVICE

The Commission has traditionally used the regulatory accounting methodology recognized as "original cost less accumulated depreciation" in the determination of the value of a utility's plant in service. The record of the instant proceeding presents no justification for a departure from this methodology which was utilized by the Commission Staff in calculating the Company's jurisdictional gross plant in service per books of \$24,035,900. The Commission Staff proposed adjustments to Plant in Service for the effects of the Staff's adjustments to capitalize a portion of the end of period wage adjustment, eliminate non-allowable plant from WSC, eliminate investment items associated with the excluded subdivisions, reduce rate base for non-regulatory vehicles, capitalize certain Hugo-related expenditures, and

reflect the proper allocation of vehicles and computers to CWS. Based upon the Commission's discussion and treatment of the depreciation expense attributable to CWIP completed after the test year end, the Commission approves Staff's adjustments to Gross Plant In Service. The net effect of these adjustments is to decrease Gross Plant in Service by \$1,604,560. The Commission finds \$22,431,340 to be the appropriate figure for the Gross Plant in Service.

#### ACCUMULATED DEPRECIATION

In determining the proper rate base for utilities, the Commission has consistently applied a methodology which reduces the figure for the gross plant used and useful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for CWS' operations reflected a "per books" figure of \$1,694,888.

With the expense adjustments previously approved herein, the Commission is of the opinion, and, so finds, that the Company's per books reserve for depreciation and amortization for South Carolina operations should be reduced by \$117,722. Consequently, the reserve for depreciation and amortization to be used for ratemaking purposes in the proceeding is \$1,577,166.

#### CONSTRUCTION WORK IN PROGRESS

This Commission has traditionally considered the reasonable and necessary costs of construction of utility plant not yet in service to be a proper rate base item. Such costs are described as construction work in progress. The Commission has uniformly

allowed CWIP to be included in a utility's rate base with no offsetting adjustment to operating income for return by that portion of the interest on funds used during construction attributable to the CWIP at the end of the test period.

In the instant proceeding, Staff proposed to reduce CWIP for a non-regulated construction project. See, Depreciation discussion, supra, and Gross Plant in Service discussion. The Commission will adopt the amount of \$193,875 as appropriate for CWIP.

#### CASH WORKING CAPITAL

The Commission has normally considered an allowance for cash working capital to be an appropriate item for inclusion in the rate base of a water and sewer utility. By permitting a cash working capital allowance, the Commission acknowledges the requirement for capital expenditures related to the routine operations of the utility. The Company's use of "as adjusted" figures in calculating its cash working capital allowance is not consistent with the Commission's accepted practice of using corrected "per book" numbers in the calculation. Additionally, the Company proposed to include deferred charges in its rate base. This would include tank maintenance, deferred legal fees, etc., any item for which an expenditure had been made but for which the expense has not yet been reflected in the income statement. The Company requested that the Commission permit deferred charges to be included in the rate base and has proposed that the rate base be adjusted by increasing the level of deferred charges in the amount of \$105,214. The Company is asking the Commission to make a selective adjustment to



its methodology for determining rate base. The Commission is of the opinion that the Company has presented no reason for the Commission to change its present method of excluding deferred charges from rate base. Therefore, the Company's proposal is denied. The Commission hereby includes a 45 day cash working capital allowance of \$286,202 based upon Staff's calculations.

#### CONTRIBUTIONS IN AID OF CONSTRUCTION

##### ADVANCES IN AID OF CONSTRUCTION

In determining the proper rate base for a utility, this Commission has generally considered contributions in aid of construction (CIAC) and advances in aid of construction (AAC) to be elements which investors are not entitled to earn a return and should be excluded from rate base. Such items as tap fees, plant impact fees, customer payments for construction of a line for service are considered to be ratepayer contributions and are not properly part of the rate base. The Commission Staff proposed to eliminate CIAC and AAC from CWS' rate base. This is consistent with the Commission's past practices and no party presented any evidence convincing the Commission that it should not accept Staff's treatment.

##### PLANT ACQUISITION ADJUSTMENT

The Company and the Staff adjusted rate base to reflect the elimination of the excluded subdivisions. The adjustment reduced rate base in the amount of \$397,216. Based upon the Commission's discussion, supra, concerning elimination of the subdivisions, the Commission finds that Plant Acquisition Adjustment should reflect a

balance of \$(819,758).

#### EXCESS BOOK VALUE

The Commission has previously determined in other rate cases that excess book value is a proper deduction from rate base. In this instance, the Company's rate base should be reduced by \$872,910.

#### ACCUMULATED DEFERRED INCOME TAXES

The accumulated reserves for Deferred Income Taxes resulting from liberalized depreciation and other items are considered by this Commission as an element on which investors are not entitled to earn a return and therefore should be excluded from rate base. The Commission finds that the amount to be deducted from rate base is \$264,671 as proposed by the Commission Staff.

#### CUSTOMER DEPOSITS

The amount representing customer deposits and accrued interest on customers' deposits is considered an element upon which the Company's investors are not entitled to earn a return and is deducted from the Company's rate base. The Commission Staff proposed that the rate base be reduced by \$237,988 representing customer deposits. Staff's proposal is hereby adopted.

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B  
ORIGINAL COST RATE BASE  
JUNE 30, 1989

Gross Plant in Service	\$22,431,340
Accumulated Depreciation	( 1,577,166)
Net Plant in Service	<u>20,854,174</u>
Cash Working Capital	286,202
Construction Work in Progress (CWIP)	193,875
Contributions in Aid of Construction	(10,839,673)
Advances in Aid of Construction	(7,600)
Plant Acquisition Adjustment	(819,758)
Excess Book Value	(872,910)
Accumulated Deferred Income Taxes	(264,671)
Customers' Deposits	<u>(237,988)</u>
TOTAL RATE BASE	<u>\$ 8,291,651</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 12 AND 13

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United State Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and

enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann., §58-5-290 (1976), nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water and sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction and book value in excess of investment the utility may request, or the Commission may decide, to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determining by dividing net operating income for return by the total operating revenues of the utility.

The Company presented Dr. Erickson to testify as to the appropriate rate of return on rate base. Witness O'Brien also supported rate base treatment for ratemaking purposes. The Consumer Advocate also recommended rate base treatment but proposed that because neither the Staff nor other parties have offered testimony using a similar approach, the Commission should not consider rate base treatment in this proceeding.

The Commission will not adopt a rate of return on rate base approach, not because only the Company presented testimony on the subject, but because what was presented was lacking in several important particulars. While the Company has a rate base of a sufficient size to use a rate of return methodology as a gauge in setting rates, the testimony presented does not support its use herein. First and foremost, Dr. Erickson did not use any other method to check the veracity of his recommended rate of return on equity of 15% using the Discounted Cash Flow (DCF) method. This, in the Commission's opinion, makes the recommendation suspect and lessens its credibility. Dr. Erickson's knowledge of the thirteen comparative companies used as a surrogate for CWS was not as intimate as the Commission would expect. Dr. Erickson, while recognizing that many of these companies had diversified into non-regulated activities, when asked, could only give one example for one company. This is not sufficient to prove the point that CWS is riskier than the comparative companies because it has no non-regulated activities. Without belaboring the point, the Commission finds that the testimony presented concerning rate of

return is insufficient to convince the Commission that such an approach should be adopted in this proceeding. This does not mean, however, that a rate of return on rate base approach is foreclosed to the Company in the future. CWS is free to present rate of return testimony in future proceedings, if it so desires, and other parties, including the Commission Staff, may present similar testimony for the Commission's consideration.

In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year:

TABLE C

Operating Revenues	\$3,300,074
Operating Expenses	3,035,351
Net Operating Income (Loss)	<u>264,723</u>
Add: Customer Growth	6,918
Total Income for Return (Loss)	<u>\$ 271,641</u>
Operating Margin (After Interest)	<u>(5.07)%</u>

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein:

TABLE D

Operating Revenues	\$4,267,780
Operating Expenses	<u>3,338,210</u>
Net Operating Income	929,570
Add: Customer Growth	17,587
Total Income for Return	<u>\$ 947,157</u>
Operating Margin (After Interest)	<u>11.91%</u>

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified

in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p.292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimonies of witness Deaver, O'Brien and Daniel who provided information concerning the extensive upgrades and repairs to the Company's water and wastewater treatment facilities, as well as the Company's efforts in being more responsive to customer complaints. (Hearing Exhibit Nos. 1 and 2) The Company made many capital improvements to comply with DHEC permitting standards. This has resulted in substantial increases in CWS' operating expenses and capital investment in the water and sewer systems.

Witness Deaver detailed the Company's system in place to respond to customer complaints. According to witness Deaver, the Company makes every effort to satisfy its customer once a complaint has been made. Complaints are responded to immediately and repairs are made as soon as possible. Operators are on call after hours to respond to emergencies. Witness Deaver listed the top five improvements made by CWS in the area of customer relations. Notably, the Company contacted home owners associations to inform them of the Company's availability to discuss customer concerns, held joint meetings among its customer service representatives and operators to discuss problems, maintained an ongoing survey



relating to customer service and satisfaction, met on a regular basis with Commission Staff and DHEC personnel. Mr. Deaver also testified to continuous training and education of the Company's employees so that they may better serve the CWS customers. Additionally, witness Deaver detailed the customer complaints from the last rate hearing and explained how the complaints have been resolved and explained other capital improvements and ongoing maintenance programs implemented to improve customer service.

The Staff Report indicated a significant improvement in the number of complaints for water and sewer billing and service problems over the test year and previous two years. Hopefully this is attributable to the Commission's charge to CWS in the last rate order, Order No. 89-573 in Docket No. 88-241-W/S to be more responsive to its customer complaints and instructing Staff to monitor the quality of its service to its customers. Staff's Report indicates that overall, the Company has improved its service and its responsiveness to its customers. This seems to be the general opinion of its customers that responded to Staff's inquiries. The Commission notes the strides the Company has taken in its service and customer relations activities and encourages it to continue to improve these areas so that all of its South Carolina customers may be provided adequate water and sewerage service.

The Commission is aware of the number of letters of protest, as well as the number of public witnesses testifying in opposition to the rate increase. Several witnesses opposed the amount of the

increase while others were dissatisfied with their service and felt such an increase was undeserved. The Company presented witness Daniel to specifically address the concerns of the River Hills community and efforts of the Company to correct the problems experienced by those customers. With this opposition in mind, the Commission considered the impact of the proposed increase on the ratepayers of the Company.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

Upon this finding it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that the Company has expended a considerable amount to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service. The Commission finds that while the proposed level of revenues and corresponding rates and charges are unreasonable, the level of revenues determined to be reasonable

results from the Company's efforts in improving the system, and having adequate employees available to respond to complaints as well as maintain the system, among others. In light of those factors as previously discussed and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 10.42%, which requires annual operating revenues of \$4,146,050. The following table reflects an operating margin of 10.42%:

TABLE E

Operating Revenues	\$4,146,050
Operating Expenses	3,291,525
Net Operating Income	<u>854,525</u>
Add: Customer Growth	16,449
Total Income for Return	<u>\$ 870,974</u>
Operating Margin (After Interest)	<u>10.42%</u>

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$845,976 the Company has provided justification for such an increase, and the schedule of rates and charges approved herein depict just and reasonable rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 14 AND 15

The Commission will spread the increase among the various services offered by the Company in the following manner:

WATER

The Company is currently charging \$6.50/month for its basic facility charge (BFC) for residential water service. The Company proposes to increase the BFC to \$7.00/month for residential and

commercial customers. To achieve the approved operating margin and level of revenues, the Commission will approve a residential and commercial BFC of \$7.00/month based upon single family equivalents (SFE's) with one exception. Presently, Glenn Village and Hollywood Hills have BFCs of \$6.00/month. Hollywood Hills is not a part of this proceeding, so its rate would not be affected. However, the Commission has determined that Glenn Village's BFC should not be increased. These customers have a demonstrated rationale for a different charge in the past and to increase their BFC to that approved herein would result in a significant increase. The Glenn Village BFC will remain at \$6.00/month.

The Company proposed to increase the commodity charge for water from \$2.30/1,000 gallons to \$2.63/1,000 gallons for both residential and commercial customers. To achieve the approved operating margin and level of revenues, the proposed commodity charge should be increased to \$2.60/1,000 gallons for both residential and commercial customers, with the exception of Glenn Village. The Commission has determined that its rate should increase from \$1.95/1000 gallons to \$2.30/1000 gallons. This will enable those customers to avoid rate shock.

The Company proposed to bill a tenant for water service for the convenience of a property owner. The proposal, however, is inconsistent with the Commission's Rules and Regulations for Water Utilities, R.103-700 et seq., S.C. Code of Laws (Vol. 26, 1976), as amended. Therefore, the Commission will delete the proposal from the Company's rate schedule.

The Company did not propose to change its present connection fee or its plant impact fee for water service. The present rates are \$100 and \$400 per single family equivalent (SFE), respectively. The Company did provide testimony outlining improvements made and further improvements to be made in continuing to meet the requirements of DHEC. Since the Company is not asking to change this prior approved rate, the Commission is not required to rule on this fee since it has been approved in a prior proceeding.

The Company proposed to increase its "customer account charge" to \$25. The Company provided information that this fee was a one-time fee to defray the set up costs of initiating service. The Commission finds this charge to be reasonable and approves same, with the exception of Glenn Village. Its customer account charge will be \$20.

CWS proposed to apply its previously approved reconnection charge of \$35 for those customers disconnected for any reason set forth in R.103-532.4. The Company agreed on cross-examination that it intended to conform to the water rules in R.103-732.5 and that its proposal should be amended accordingly. The Commission herein finds the \$35 reconnection fee applied as proposed is a reasonable application and approves same. Additionally, the Company's proposal provided that if a customer requested to be connected within nine months of disconnection, the Company would be allowed to charge that customer the BFC for those months. This would help eliminate part-time residents from disconnecting their service to avoid paying for water service even though the Company's facilities

are available and ready to provide service. Based on this rationale, the Commission approves this proposal.

The Commission finds that the other proposals in the Company's rate schedule for water service do not necessarily affect CWS operating margin, but primarily set forth the Company's policies in regard to various situations. The Commission has reviewed these policies and finds that they should be approved with one exception. The Company proposes that as to the extension of utility service lines and mains that it "shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system." This policy is inconsistent with the Commission's determination in Order No. 84-890, issued October 30, 1984, in Docket No. 84-55-S, Application of Fripp Island Sewer System, Inc. for approval of a new schedule of rates and charges for sewer service provided to its customers. There, the Commission enunciated its finding that a utility had no obligation to extend its service lines and mains to serve a customer only if it is not "economically feasible" to do so. The utility has the regulatory benefit of being the monopoly service provider and should strive to provide service to its customers within the confines of its service area if it is economically feasible to do so. Therefore, the Commission will amend that portion of the Company's rate schedule as reflected in Appendix A, page 3.

SEWER

The Company presently charges its sewer collection and treatment customers \$18.50 per month and its sewage collection only customers \$11.00 per month. The Company proposes to increase the collection and treatment monthly charge to \$25.76 and increase the collection only to \$14.00 per month for both residential and commercial customers. To achieve the approved operating margin and level of revenues, the proposed collection and treatment charge should be reduced to \$25.00 per month and the collection only charge should be granted in full at \$14.00 per month for both residential and commercial customers, with two exceptions. The Commission is aware that the Company serves mobile home customers and would intend that those customers be included in the residential rate for sewer customers. The Commission is aware that based upon the South Carolina Department of Health and Environmental Control Guidelines (South Carolina Pollution Control Guidelines for Unit Contributory Loadings to Wastewater Treatment Facilities, Water Pollution Division, S.C. Pollution Control Authority, 1972) mobile home customers have a lower sewer contributory factor than single family homes. The single family equivalent for mobile homes is 75% of a residential single family equivalent. Therefore, for the Company's mobile home customers, the monthly sewer rate will be 75% of the residential monthly sewer rate to reflect the rating provided by the DHEC guidelines. The Company may, if it so desires, institute a proceeding before the Commission to examine the appropriateness of the treatment afforded

mobile home customers by the Commission. Also, to provide some protection from rate shock to the Glenn Village customers, the Commission will apply the same 75% of the monthly rate for residential customers to that system.

Property owners were offered the convenience of the utility billing the tenant for sewerage service. This is permitted by the Commission's Rules under certain conditions. The Commission will amend the Company's proposal to conform with R.103-535(O), and the amendment is reflected in Appendix A, p. 4.

CWS did not propose to change its present connection fee or its plant impact fee for sewer service. The present rates are \$100 and \$400 per single family equivalent (SFE), respectively. The Company did provide testimony outlining improvements made and further improvements to be made in continuing to meet the requirements of DHEC. Since the Company is not asking to change this prior approved rate, the Commission is not required to rule on this fee, since it has been approved in a prior proceeding.

The Company proposed to increase its "customer account charge" to \$25. The Company provided information that this fee was a one-time fee to defray the set up costs of initiating service. The Commission finds this charge to be reasonable and approves same with the exception of Glenn Village. It's rate will increase to \$20. The Company proposed that this charge would be waived if the customer also takes water service.

The Company proposed some clarifying language relating to its reconnection charge of \$250 for those customers disconnected



pursuant to R.103-532.4. The Company also proposed that customers requesting to be reconnected within nine months of disconnection be charged the monthly BFC for the period disconnected. This would help eliminate part-time residents from disconnecting service to avoid paying for sewer service even though the Company's facilities are available and ready to provide service. The Commission finds both the rate and the policy to be reasonable and approves same.

The Company proposed a new charge of \$10/month as an Environmental Impact Surcharge (EIS). This EIS would apply in those situations where a wastewater treatment system has treatment standards of 21 BOD and 30 TSS (or stricter standards), and which system after January 1, 1990 is required by DHEC or other government entity to be upgraded through capital improvements. According to the responses by the Company to Staff's Data Request and through cross-examination of witness Wenz, the only CWS system that meets the criteria to implement the EIS is Roosevelt Garden Apartments in Orangeburg, South Carolina. However, other CWS systems could be required to meet the stricter standards in the future, and thus could be eligible to pay the EIS. According to the testimony of witness Wenz, the \$10 monthly surcharge would be in addition to the monthly sewer rate and would be charged over the life of the plant, or approximately 50 years. This would be so, according to Mr. Wenz, even if the cost of the plant upgrade was recovered in a shorter period of time. See, Hearing Exhibit No. 4, Response to Question No. 17.

Mr. Wenz testified that the purpose of the EIS is to recognize

the rapid change taking place in the water and sewer industries which causes extreme investment and concomitant cost differentials among the CWS systems. Mr. Wenz opined that the EIS does not contradict the Company's uniform rate concept. The EIS recognizes significant changes occurring that cause large variances in the cost of service among systems. Specifically, the cost to meet the DHEC required upgrades at the Roosevelt Garden system was estimated by the Company to cost from \$150,000 to \$175,000. Hearing Exhibit No. 4, Response to Question No. 4. Once these improvements are begun, the Company wished to implement the EIS.

The Commission finds that water and sewer utilities are facing changing times, particularly in environmental regulation. This, in turn, causes changes in the economic regulation of these utilities. The Commission sees that a change in the usual policy of uniform rates may be necessary based upon the testimony of witness Wenz, but the Commission is not ready to embrace CWS' proposal wholeheartedly. The Commission will approve the EIS for the Roosevelt Garden Apartments system only. The Commission recognizes that the EIS will not impact the residents of the apartments, but will only impact Boston Financial, Inc., the owner of the federally subsidized apartments, the owners of the laundry and the Orangeburg Family Health Center, run by Orangeburg County. However, the Commission will not allow the Company to collect this fee over the life of the improvements, but rather the Commission will examine the EIS in the Company's next rate filing and reserves the right to make further findings concerning the EIS, including, but not

limited to, whether it should be applied as requested herein or whether it should be continued at all.

The Company proposed some new requirements for its customers maintaining solids interceptor tanks. The Company proposed a \$125 pumping charge to reimburse the Company for pumping out excessive accumulated solids in the interceptor tank. On cross-examination, the Company agreed that a customer could pay the charge over a period of time. The Commission has determined that a \$120.00 pumping charge is reasonable and will require the Company to inform any affected customer that the Company may be reimbursed over a twelve month period. This coincides with the payment period requested and hereby approved for the pump repair or replacement charge.

Additionally, the Company has experienced problems in the past with regard to some customers having solids interceptor tanks without visual inspection ports (VIP's). VIP's aid the Company in observing the contents of the tank and extraction of test samples therefrom. The Company requests that for those customers without the necessary VIP's, the Company should be allowed to require the installation of the VIP's in order for the customer to continue to receive sewerage service. The Commission finds that such VIP's aid the utility in its provision of service, as well as serve the customer's interest. The Commission finds that the proposed policy of the Company should be approved.

The Commission finds that the other proposals in the Company's rate schedule for sewer service do not necessarily affect CWS

operating margin, but primarily set forth the Company's policies in regard to various situations. The Commission has reviewed these policies and finds that they should be approved with one exception. The Company proposes that as to the extension of utility service lines and mains that it "shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its sewer system." This policy is inconsistent with the Commission's determination in Order No. 84-890, issued October 30, 1984, in Docket No. 84-55-S, Application of Fripp Island Sewer System, Inc. for approval of a new schedule of rates and charges for sewer service provided to its customers. There the Commission enunciated its finding that a utility had no obligation to extend its service lines and mains to serve a customer only if it is not "economically feasible" to do so. The utility has the regulatory benefit of being the monopoly provider and should strive to provide service to its customers within the confines of its service area if it is economically feasible to do so. Therefore, the Commission will amend that portion of the Company's rate schedule as reflected in Appendix A, page 8.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interest of the Company and those of its affected customers. This results in a reasonable attainment of our ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. That the proposed schedule of rates and charges by the

Company are found to be unreasonable and are hereby denied.

2. That the schedule of rates and charges attached hereto as Appendix A, be, and hereby are, approved for service rendered on or after the date of this Order, and the schedules be, and are hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

3. That should such schedule not be placed in effect until three (3) months from the effective date of this Order, such schedule as contained herein shall not be charged without written permission from the Commission.

4. That the Company shall maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

CAROLINA WATER SERVICE, INC.

DOCKET NO. 89-610-W/S - ORDER NO. 90-694  
AUGUST 1, 1990  
APPENDIX A

WATER

MONTHLY CHARGES

1. GALLON METERS

Basic Facilities Charge - Residential  
Monthly charge per single-family house,  
condominium, mobile home or apartment unit: \$7.00

Commodity Charge: \$2.60 per 1,000 gals.

B.F.C. - Commercial - Monthly Charge \$7.00 per SFE

Commodity Charge: \$2.60 per 1,000 gals.

Glenn Village: Basic Facilities: \$6.00  
Commodity: \$2.30 per 1,000 gals.

Hollywood Hills: Basic Facilities: \$6.00  
Commodity: \$1.95 per 1,000 gals.

2. CUBIC FOOT METERS

Basic Facilities Charge - Residential  
Monthly charge per single-family house,  
condominium, mobile home or apartment unit:  
\$7.00 per unit

Commodity Charge: \$2.60 per 134 cubic ft

B.F.C. - Commercial - Monthly Charge \$7.00 per SFE

Commodity Charge: \$2.60 per 134 cubic ft

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

3. NON RECURRING CHARGES

a. Water service connection charge per  
single-family equivalent \$100.00

b. Plant Impact fee per single-family  
equivalent \$400.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

4. ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Customer Account Charge: A fee of \$25 shall be charged as a one-time fee to defray the costs of initiating service. Hollywood Hills & Glenn Village New Customer Account Charge - \$20.00
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of \$35 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.4. The amount of the reconnection fee shall be in accordance with R.103-732.4 and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

5. BILLING CYCLE

Recurring charges will be billed bimonthly in arrears, except Harborside which will be billed monthly. Nonrecurring charges will be billed and collected in advance of service being provided.

6. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

7. TAX MULTIPLIER

Except as otherwise provided by contract approved by South Carolina Public Service Commission, amounts paid or transferred to the utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are water service connection charges and plant impact fees.

8. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system, if it is not economically feasible to do so. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.



SEWER

MONTHLY CHARGES

1. CHARGE FOR SEWAGE COLLECTION AND TREATMENT SERVICE

Residential - monthly charge per single-family house, condominium, villa, or apartment unit:	\$25.00 per unit
Commercial - monthly charge:	\$25.00 per SFE
Mobile Homes - monthly charge	\$18.75 per unit
Glenn Village - monthly charge	\$18.75 per unit
Hollywood Hills - monthly charge	\$15.50 per unit

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to that premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated and the utility shall not be required to furnish service to the premises until the landlord has executed the agreement, and paid any reconnection charges.

2. CHARGE FOR SEWAGE COLLECTION SERVICE ONLY

When sewage is collected by the Utility and transferred to a government body or agency, or other entity for treatment, the Utility's rates are as follows:

Residential - monthly charge per single-family house, condominium, or apartment unit	\$ 14.00
Commercial - monthly charge per single-family equivalent	\$ 14.00

The Utility will also charge for treatment services provided by the government body or agency or other entity. The rates imposed or charged by the government body or agency or other entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup.

**Solids Interceptor Tanks:** For all customers receiving raw sewage collection service through an approved solids interceptor tank, the following additional charges shall apply:

**Pumping charge:** At such time as the Utility determines through its inspection that excessive solids have accumulated in the interceptor tank, the utility will arrange for pumping the tank and will include \$120.00 as a separate item in the next regular billing to the customer. This charge can be spread over a 12 month period.

**Pump repair or replacement charge:** If a separate pump is required to transport the customer's sewerage from solids interceptor tank to the Utility's sewerage collection system, the Utility will arrange to have this pump repaired or replaced as required and will include the cost of such repair or replacement and may be paid for over a one year period.

**Visual Inspection Port:** In order for a customer who uses a solids interceptor tank to receive sewage service from the Utility or to continue to receive such service, the customer shall install at the customer's expense a visual inspection port which will allow for observation of the contents of the solids interceptor tank and extraction of test samples therefrom. Failure to provide such a visual inspection port after timely notice of not less than thirty (30) days shall be just cause for interruption of service until a visual inspection port has been installed.

**Environmental Impact Surcharge - Roosevelt Gardens Only**  
Any customer receiving sewage treatment services from a wastewater treatment system which has treatment standards of 21 BOD and 30 TSS (or stricter standards), and which system after January 1, 1990 is required by DHEC or other government entity to be upgraded through capital improvements, shall pay a monthly surcharge of \$10.00 per residential unit or single family equivalent in addition to all other applicable charges. This monthly surcharge shall apply to the Roosevelt Gardens system only and shall not apply to any other Carolina Water Service, Inc. system in South Carolina.

3. NON-RECURRING CHARGES

- a. Sewer service connection charge per single-family equivalent: \$100.00
- b. Plant Impact fee per single-family equivalent: \$400.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

4. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Customer Account Charge: A fee of twenty-five dollars (25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service. Glenn Village New Customer Account Charge - \$20.00. Hollywood Hills New Customer Account Charge - \$16.00
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnection service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4. and shall be changed to conform with said rule as the rule is amended from time to time.
- c. Notification Fee: A fee of four dollars (\$4.00) shall be charged to each customer to whom the utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the costs.

5. BILLING CYCLE

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

Bills will be rendered bi-monthly except as follows:

Oakland Plantation	Quarterly
Mandel Hall	Quarterly
Friarsgate	Quarterly
Oakatee	Quarterly
Harborside	Monthly
Hidden Valley MHP	Monthly
Sharpe Road MHP	Monthly

6. LATE PAYMENT CHARGES

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

7. TAX MULTIPLIER

Except as otherwise provided by contract approved by the South Carolina Public Service Commission, amounts paid or transferred to the utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are sewer service connection charges and plant impact fees.

8. TOXIC AND PRETREATMENT EFFLUENT GUIDELINES

The Utility will not accept or treat any substance or material that has not been defined by the United States Environmental Protection Agency ("EPA") OR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (DHEC) as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the utility for all damages and costs, including reasonable attorney's fees, incurred by the utility as a result thereof.

9. CONSTRUCTION STANDARDS

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

10. EXTENSION OF UTILITY SERVICE LINES AND MAINS

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems unless it is economically feasible to do so. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service, unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.